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State of New Jersey
Board of Regulatory Commissioners
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Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M. Street, N.W., Room 222
Washington, D.C. 20554

Dear Ms. Searcy:

Re: In the Matter of Simplification of the Depreciation Prescription Process, CC Docket No. 92-296.

Enclosed please find an original and nine copies of the comments of the Staff of the New Jersey Board of Regulatory Commissioners.

Please contact me at the number above or Mahasti Pourdastan if you have any questions. She can be reached on (201) 648-3302.

Sincerely,

Michael P. Gallagher

Michael P. Gallagher, Director
Division of Telecommunications

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BEFORE THE

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, D.C. 20554

IN THE MATTER OF)	FCC 92-537
SIMPLIFICATION OF)	CC Docket No. 92-296
THE DEPRECIATION)	NOTICE OF PROPOSED
PRESCRIPTION PROCESS)	RULEMAKING

COMMENTS OF THE STAFF OF THE NEW JERSEY
BOARD OF REGULATORY COMMISSIONERS

The Staff of the New Jersey Board of Regulatory Commissioners, (hereinafter "Staff") respectfully submits the following comments to the Notice of Proposed Rulemaking on the issue of Simplification of the Depreciation Prescription Process released by the Federal Communications Commission (hereinafter "Commission") on December 29, 1992. The New Jersey Board of Regulatory Commissioners (the Board) possesses regulatory authority over intrastate depreciation prescription matters.

As discussed in the Notice, the Commission commenced this rulemaking in light of market changes and the alleged high costs of the depreciation rate-setting process. The outcome is expected to simplify the procedures and reduce associated costs of the interstate depreciation prescription process. Simplification of the process must be made in a manner that will adequately recognize a changing telecommunications environment while providing reasonable bounds for changing depreciation rates and take into account local concerns.

In New Jersey, the Board has recognized the need for alternative regulatory approaches due to changes in the telecommunications marketplace and burdensome regulatory costs. Consequently, the Board recently approved a plan of alternative regulation for New Jersey Bell Telephone Company that recognizes the need for flexibility to depart from potentially costly traditional regulation methods. The alternative plan regulation recognizes the need for departure from traditional methods while ensuring reasonable and affordable rates including the effect of depreciation expenses. For New Jersey, we believe depreciation expenses must be reasonable and consistent with the local bell operating company's infrastructure development program.

New Jersey Staff supports the Commission's attempt to reduce unnecessary regulatory burdens and costs by simplifying the depreciation prescription process. The Staff believes, however, that the flexibility granted should center on the relevant factors that directly affect the level of depreciation expenses to be declared. This, in Staff's opinion, will allow adequate depreciation flexibility for adjustment of those factors while ensuring reasonable and justifiable depreciation rates.

It is the position of the Staff that the Commission's "Basic Factors Range Option" is the most appropriate method for the simplification of the depreciation process. Under this option, the Commission will continue to prescribe depreciation rates utilizing the current depreciation rate formula. Yet, this option would simplify the depreciation process by establishing ranges for basic factors that determine the parameters used in the depreciation rate formula, such as the future net salvage and the remaining life. This option would also reduce the alleged review cost by eliminating the need for detailed studies of the basic factors while providing consistent and relevant parameters. Furthermore, this option can be suitable for the states that rely wholly or partially, on the interstate depreciation review process to set intrastate depreciation rates. The other options in Staff's opinion allow a degree of latitude that could make depreciation expense declaration an accounting adjustment without regards for plant performance indicators.

Under the second option, "The Depreciation Rate Range Option," the proposal is to establish depreciation ranges without resorting to the existing depreciation formula. This option may reduce the administrative cost of the depreciation process, however, it may not provide the Commission realistic depreciation ranges. The reason being that the ranges will solely be determined from a statistical analysis of currently prescribed rates which may not consider variances between performance factors in different regions.

Under the third option, "the Depreciation Schedule option," the proposal is to establish a schedule based on an industry-wide average of the projection life, retirement patterns, and salvage value underlying currently-prescribed rates. Similar to the second option, although this option may reduce the administrative cost of the depreciation process, it may not provide realistic depreciation ranges since the ranges will be established based on the average of the current depreciation factors. This option also may not consider regional variations in scheduled items while allowing a greater range for purely accounting adjustments.

Under the fourth option, "The Price Cap Carrier Option," the carriers are expected to file with the Commission their current and the proposed rates, and the changes in depreciation expense that they may experience if the proposed rates become effective. This option may reduce the administrative expenses for the carriers, however, it may not be feasible for the states that rely to a greater extent on the Commission review process to set intrastate rates. In addition this option may eventually become more costly since it may generate extensive comments through public filings.

Staff believes that any depreciation process adopted should make allowances for accelerated technology deployment plans. In the event a state's depreciation rates fall outside the prescribed allowable range, consideration should be given to that rate if it is the result of an accelerated infrastructure development plan.

Staff concurs with the Commission that once the option is in-place it should be mandatory "for all carriers for all applicable accounts." Further, Staff believes that the Commission should continue the tri-annual meetings with the state regulators as they currently exist in order to continue the communication between the Commission, and the state regulators. Finally, once the carriers select their initial basic factors, preferably at the tri-annual meetings, revisions, excluding the annual adjustments, should not occur until the following tri-annual meeting. This process allows the Commission, the state regulators, and the industry to attempt to reach agreement on the new "basic factors".

We hope that the above comments are considered during your deliberations on this matter.

Respectfully Submitted,

Michael P. Gallagher

Michael P. Gallagher, Director
Division of Telecommunications

DATED: 3/10/93